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Poultry and Products

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Report Highlights:

Hong Kong reported no cases of avian influenza (AI) in 2005. The U.S. in 2005 exported \$52 million of chicken products plus \$64 million of chicken feet to Hong Kong. A challenge for U.S. poultry products destined for Hong Kong in 2006 will be continuing competition, especially price competitive products from Brazil. Also, Hong Kong's new certification requirement for U.S. chicken feet has contributed to a decline in U.S. export value in this market. However, Hong Kong consumers have great confidence in U.S. products in terms of quality and food safety. U.S. exports to Hong Kong is forecast to increase by 6 percent reaching 35,000 MT in 2006 (excluding chicken feet and re-exports)

Includes PSD Changes: Yes
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Situation and Outlook

In 2005, Hong Kong had an import market of \$385 million worth of chicken products, plus \$72 million worth of live chickens and \$137 million of chicken feet. About 26 percent and 51 percent respectively of chicken products and chicken feet were re-exported.

Hong Kong's imports of chicken products in 2006 and beyond are predicted to inevitably decline as a result of the trend of increasing direct shipment to China. However, when re-exports are excluded, 2006 imports are expected to rise slightly by 1 percent to 226,000 MT because Hong Kong has been stocked with chicken products which have not been able to be re-exported to China. (Because of AI outbreaks in China, some traders voiced concern that demand for chicken products in China have been reduced, and re-export trade to China as well as movement of chicken shipments between provinces have not been smooth.)

In 2005, U.S. chicken products have not yet been able to recover from its previous leading position of market share in Hong Kong despite the government's lifting of its 3-month ban of U.S. poultry in April 2004. The U.S. accounted for 33 percent (\$121 million) of the market share in 2003 but declined to 13 percent (\$52 million) in 2005. Brazilian products have been extremely price competitive. One salient point is that Hong Kong traders started to buy more expensive parts from Brazil such as two-joint wings which are retained for domestic consumption. In the past, the only most popular Brazilian parts were 3-joint wings which were re-exported to China.

However, the U.S. is a non-AI infected area and Hong Kong consumers have good confidence in U.S. products in terms of quality and food safety. U.S. products are advantaged in this regard particularly when China suffers from AI outbreaks. Therefore, U.S. exports to Hong Kong are expected to rise by 6 percent amounting to 35,000 MT in 2006. U.S. exported 33,000 MT of chicken products to Hong Kong in 2005 (excluding chicken feet and re-exports).

Hong Kong's consumption of chicken rose 5 percent in 2005 after Hong Kong banned chicken supplies from AI infected countries namely the U.S. and China for a few months in 2004. Another reason for the increased consumption is the fact that many products that should have been re-exported to China are stuck in Hong Kong. In order to prevent total loss, traders tend to dump the products in the local market.

Hong Kong's chicken consumption is closely linked to AI development in China, which is a major supplier for live chickens and chicken products. In November 2005, Hong Kong's chicken consumption plummeted significantly resulting from the news of AI human infection cases in China. The importation of both live chickens and chilled/frozen chickens slid. However, the Hong Kong market has already digested the fact of human infection AI cases in China. Given the impending Chinese new year which is a typical peak season for chicken consumption, consumers' confidence in chicken consumption has been largely recovered. The 2006 forecast is a modest rise of 1 percent, yet it could drop significantly if AI outbreaks get more serious in China.

Hong Kong currently has banned imports of live birds and poultry products from 14 countries including China because of reported AI cases. Out of the 13 provinces/autonomous regions from China which are subject to Hong Kong's import restriction, only Liaoning Province is a key poultry supplying area for Hong Kong. About 14 percent of Hong Kong's poultry imports from China came from Liaoning Province in 2005. However, importers revealed that they are able to source substitutes from other places such as Shandong Province with no difficulties. Imports from China have declined since October 2005 and may well be attributed to contracted demand rather than shortage of supply.

(Note: Two dead birds, Oriental Magpie Robin, found respectively on January 10 and 26 in the sub-urban areas of Hong Kong were confirmed to be H5N1 positive after a series of laboratory tests. As a safety measure, the Hong Kong government carried out inspection of some 18 chicken farms within five kilometers of where the birds were found. Surveillance of wild birds in the area has also been stepped up. According to a Hong Kong spokesman, the existence of H5N1 virus in 2 dead birds might be an indication that the virus exists in the natural environment in Hong Kong.)

Statistical Table – Poultry, Meat, Chicken

PS & D Table

Commodity Poultry, Meat, Broiler (1000 MT) (MIL HEAD)							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Inventory (Reference)	2	2	2	3	2	2	(MIL HEAD)
Slaughter (Reference)	17	17	22	22	22	22	(MIL HEAD)
Beginning Stocks	0	0	15	15	0	8	(1000 MT)
Production	29	29	38	39	38	39	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	244	244	230	224	246	226	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	244	244	230	224	246	226	(1000 MT)
TOTAL SUPPLY	273	273	283	278	284	273	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	0	0	0	0	0	0	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Consumption	258	258	283	270	284	273	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	258	258	283	270	284	273	(1000 MT)
TOTAL Use	258	258	283	270	284	273	(1000 MT)
Ending Stocks	15	15	0	8	0	0	(1000 MT)
TOTAL DISTRIBUTION	273	273	283	278	284	273	(1000 MT)
Calendar Yr. Imp. from U.S.	56	56	47	33	0	35	(1000 MT)

Note: Re-exports are taken from Imports and Exports refer to domestic exports. Slaughter (Reference) does not include the importation of live chickens that are less than 185 grams. All figures above do not include chicken feet/paws.

Table 1: Production of Live Chicken

(Number)	2002	2003	2004	2005	05/04 % change
Local Supply	8,604,000	10,154,000	7,821,054	11,676,000	49%
Import	27,119,047	23,779,281	9,307,874	10,560,849	13%
Total	35,723,047	33,933,281	17,128,928	22,236,849	30%

Source : Hong Kong Agriculture, Fisheries and Conservation Department

Table 2: Average Retail Prices of Chicken Relative to Pork and Beef (freshly slaughtered)

US\$/kg	2000	2001	2002	2003	2004	2005 Jan – Oct.
Chicken (top grade)	\$4.49	\$4.60	\$4.58	\$4.22	\$5.60	\$5.62
Beef (best quality)	\$7.17	\$7.20	\$7.15	\$7.2	\$7.17	\$7.31
Beef (belly flesh)	\$5.34	\$5.36	\$5.35	\$5.45	\$5.47	\$5.54
Pork (best cut)	\$4.87	\$4.54	\$4.26	\$4.10	\$4.03	\$4.27
Pork Chop	\$5.92	\$5.58	\$5.18	\$4.89	\$4.82	\$5.06

Source: Hong Kong Census & Statistics Department

Exchange Rate: US\$1=HK\$7.75

Table 3: Average Retail Prices of Chicken Relative to Pork and Beef (frozen) HK\$

Product Categories	Origin	Retail Price
Chicken		
Mid-joint wings	U.S.A.	HK\$45.00/4 lbs
Legs	U.S.A.	HK\$8.00/lb
Drumstick	U.S.A.	HK\$45.00/5 lbs
Whole Wing	Brazil	HK\$50.00/5 lbs
Boneless Leg (Skin-on)	China	HK\$50.00/2 kg
Boneless Breast (Skin-off)	China	HK\$50.00/2 Kg
Whole Chicken (1600 gm)	Brazil	HK\$27.00 each
Whole Chicken (800 gm)	Brazil	HK\$16.00 each
Beef		
CAB Tenderloin	Canada	HK\$128.00 /lb
CAB Rib Eye	Canada	HK\$128.00/lb
CAB Striploin	Canada	HK\$80/lb
Tenderloin	New Zealand	HK\$48/lb
Sirloin (P.S)	New Zealand	HK\$38/lb
Rib Eye (P.S.)	New Zealand	HK\$48/lb
Beef Finger	Canada	HK\$24/lb
Pork		
Loin	Brazil	HK\$17.60/lb
Sparerib	Brazil	HK\$17.60/lb
Butt	Brazil	HK\$19.60/lb

Source: A retailer

(All the figures below include re-exports but exclude chicken feet)

(2005 figures are estimates based on Jan – Nov statistics)

Table 4: Hong Kong Chicken Imports in Value by Major Suppliers

Country	Millions of US Dollars				% Share		
	2003	2004	2005	% change	2003	2004	2005
--The World--	365	332	385	16%	100%	100%	100%
Brazil	120	133	151	14%	33%	40%	39%
China	59	80	124	55%	16%	24%	32%
United States	121	68	52	-24%	33%	20%	13%
France	11	12	10	-12%	3%	3%	3%
Thailand	20	11	13	17%	5%	3%	3%
United Kingdom	10	6	8	28%	3%	2%	2%
Canada	5	5	5	4%	1%	1%	1%

Table 5: Hong Kong Chicken Imports in Quantity by Major Suppliers, MT

Country					% Share		
	2003	2004	2005	% change	2003	2004	2005
--The World--	409,950	310,676	303,035	-2%	100%	100%	100%
Brazil	136,751	123,972	118,046	-5%	33%	40%	39%
United States	158,068	82,613	52,681	-36%	39%	27%	17%
China	41,838	55,666	82,763	49%	10%	18%	27%
France	13,464	11,796	8,425	-29%	3%	4%	3%
United Kingdom	13,627	6,535	7,445	14%	3%	2%	2%
Canada	7,404	6,319	6,641	5%	2%	2%	2%

Table 6: Average C.I.F. Prices of Chicken Products by Major Suppliers

Country	- / KG - 2002	- / KG - 2003	- / KG - 2004	- / KG 2005
--The World--	0.84	0.89	1.07	1.27
Brazil	0.86	0.88	1.07	1.28
United States	0.73	0.76	0.82	0.98
China	1.43	1.42	1.44	0.98
France	0.91	0.85	0.98	1.21
United Kingdom	0.72	0.71	0.95	1.06
Canada	0.7	0.69	0.78	0.77
Thailand	1.82	1.36	2.74	2.92

Table 7: Chicken Re-exports by Major Destinations

Country	Millions of US Dollars				% Share		
	2003	2004	2005	% change	2003	2004	2005
--The World--	187	58	78	34%	100%	100%	100%
China	174	43	37	-14%	93%	75%	48%
Vietnam	1	7	0	-95%	0%	11%	0%
Macau	7	6	7	22%	4%	10%	9%
Taiwan	5	1	33	3088%	2%	2%	42%

Table 8: Chicken Re-exports by Major Destinations, MT

				% Change		% Share	
Country	2003	2004	2005	- 05/04 -	2003	2004	2005
--The World--	255,890	66,675	78,988	18%	100%	100%	100%
China	242,467	50,138	37,705	-25%	95%	75%	48%
Vietnam	1,001	9,303	447	-95%	0%	14%	1%
Macau	5,840	4,073	4,479	10%	2%	6%	6%
Taiwan	5,926	1,963	36,274	1748%	2%	3%	46%

Table 9: Hong Kong Chicken Imports by Categories in Value, US\$ million

	2003	2004	2005	% change
Chicken	365	332	385	16%
chicken wings	194	169	183	8%
chicken frozen cuts	93	72	82	13%
chicken, whole	43	57	74	30%
chicken feet	191	152	137	-10%

Table 10: Hong Kong Chicken Imports by Categories in Volume, MT

	2003	2004	2005	% change
Total Chicken	409,950	310,676	303,035	-2%
chicken wings	231,574	178,287	156,559	-12%
chicken frozen cuts	110,907	66,971	67,417	1%
chicken, whole	33,154	41,118	49,090	19%
chicken feet	301,837	217,170	188,415	-13%

Table 11: Hong Kong Chicken Re-exports by Categories in Volume, MT

	2003	2004	2005	% change
Chicken	255,890	66,675	78,989	18%
chicken wings	165,995	45,207	61,557	36%
chicken frozen cuts	58,541	15,936	7,286	-54%
chicken, whole	4,923	748	298	-60%
chicken feet	262,994	66,575	96,959	46%

Table 12: Hong Kong Retained Chicken Products by Categories, MT

	2003	2004	2005	% change
Chicken	154,061	244,000	224,046	-8%
chicken wings	65,579	133,080	95,002	-29%
chicken frozen cuts	52,366	51,035	60,131	18%
chicken, whole	28,231	40,370	48,791	21%
chicken feet	38,843	150,595	91,455	-39%

Table 13: U.S. Chicken Exports to Hong Kong by Categories in Value, US\$ million

	2003	2004	2005	% change
Chicken	121	68	52	-31%
chicken wings	57	39	31	-21%
chicken frozen cuts	52	22	16	-28%
chicken, whole	2	1	0	-60%
chicken feet	127	85	64	-25%

Table 14: U.S. Chicken Exports to Hong Kong by Categories in Volume, MT

	2003	2004	2005	% change
Chicken	158,068	82,613	52,680	-36%
chicken wings	70,954	49,095	30,400	-38%
chicken frozen cuts	71,260	26,767	17,252	-36%
chicken, whole	2,457	844	295	-65%
chicken feet	186,724	120,848	87,290	-28%

Table 15: U.S. Chicken Exports to Hong Kong being Re-exported, MT

	2003	2004	2005	% change
Chicken	114,911	26,822	19,222	-28%
chicken wings	51,969	13,271	13,297	0%
chicken frozen cuts	46,898	11,359	3,712	-67%
chicken, whole	3,905	572	0	-100%
chicken feet	170,571	29,516	37,720	28%

Table 16: Hong Kong's Retained Imports of U.S. Chicken Products, MT

	2003	2004	2005	% change
Chicken	43,158	55,791	33,458	-40%
chicken wings	18,985	35,824	17,103	-52%
chicken frozen cuts	24,362	15,408	13,540	-12%
chicken, whole	-1,448	272	295	8%
chicken feet	16,153	91,331	49,571	-46%

Source : Hong Kong Census & Statistics Department

Narrative on Supply and Demand, Policy & Marketing

Production

Though there are outbreaks of Avian Influenza cases in various parts of the world in the past few months, there have been no AI cases reported in Hong Kong. The Hong Kong government early last year worked out a contingency plan in response to outbreaks of avian influenza in poultry in local farms and retail markets. The Hong Kong government restated that the plan remained unchanged. In the event of two confirmed H5N1 cases in local poultry farms, the government will terminate all local live poultry trade on a compulsory basis. Also, when there are two confirmed H5N1 cases in retail markets, all live poultry in Hong Kong's retail markets will be culled.

Hong Kong government officials have always said they have done as much as they could to prevent AI. As such, there have not been any significant changes in production policy since this last report. In view of the mounting pressure of the risks of AI outbreaks, the Hong Kong government nonetheless has made the following two changes in November 2005. First, a free avian influenza vaccination program for backyard poultry is offered. Second, the three duck farms remaining in Hong Kong are required to have bird-proof facilities. Currently, there is compulsory vaccination for all imported and local chickens and all chicken farms are required to provide shed-proof facilities in order to prevent wild bird droppings from contacting the stock.

When the government launched the farm-license buy-back scheme in August last year, there were 147 farms with a 3.7 million chicken capacity allowed. In the past five months, over 20

licenses were returned to the government. About 120 farms are still in operation with a capacity of 3.2 million chickens. This is still far above the government's target of reducing the number of chickens to 2 million by the end of 2005. It is not known at this moment whether the government will take any measure to cut the number to 2 million. However, the government has set August 2006 as the deadline for the voluntary license buy-back scheme, it is very possible that many farmers would wait for the last minute before they are willing to return the license and obtain the cash compensation.

The current production of chickens in Hong Kong has been very consistent, amounting to approximately 60,000 head per day, with imports and local farms each supplying 30,000 head. The government setting this import limit is based on the rationale that the retail markets can accommodate this amount and that overcrowded situations will give rise to the risks of an AI outbreak.

Since Hong Kong banned importation of live chickens from China between January and April, 2004, the production of live chickens (table 1) in 2005 increased by 30 percent over 2004. With the supply limit imposed by the Hong Kong government, it is very unlikely that production in 2006 will rise. On the other hand, production will drop significantly in case AI outbreaks in China become uncontrollable or spread to Guangdong province, which supplies all Hong Kong's live chicken imports.

Consumption

Hong Kong's consumption of chicken, particularly live chicken, plummeted in mid November when news of human AI cases in China was widely reported in Hong Kong. China supplies almost half of Hong Kong's total live chicken consumption while the rest are supplied locally. The sporadic outbreaks of AI cases in birds in various provinces of China did not significantly impact Hong Kong consumers' confidence in chicken consumption. The news of human infection, however, rocked the retail market. The wholesale price of live chickens dropped tremendously from the normal price of HK\$12/catty (US\$2.6/kg) to HK\$4/catty (US\$0.87/kg). The market remained sluggish over 20 days. The market gradually recovered towards the end of December. The current wholesale price (January 2006) is around HK\$10/catty (US\$2.2/kg). The table below shows that live chicken supplies began to decline in October but dropped significantly in November. The decline in supplies was due to consumer confidence.

Table : Hong Kong Live Chickens and Retained Chilled and Frozen Chicken Products

	Aug 2005	Sept 2005	Oct 2005	Nov 2005	Nov/Sep %
Total Live Chicken Supplies (Number)	1,931,030	2,007,861	1,781,810	1,399,670	-30%
Local Supplies (Number)	1,067,700	1,050,100	903,200	637,800	-39%
Imports (Number)	863,330	957,761	878,610	761,870	-20%
Retained Chicken (Retained) Kg	16,677,198	16,754,639	20,798,382	16,072,232	-4%

The retained chicken meat products also declined in November but not as dramatically as the frozen chicken supplies. Brazil, China and the U.S. are the three largest suppliers of frozen chicken products and Brazil and U.S. are non-AI infected areas. Consumer confidence in frozen chickens was not as negatively affected as in live chickens.

There were different factors at play regarding the consumption of frozen chicken products. First, some restaurants have changed their menu from chicken to other meats when HRI

sectors considered consumers' AI concern. Once menus are changed, it takes time to switch menus back again to chicken. Second, the market was also affected by weak re-export sales to China in the past few months. When products could not find buyers in China, they became stuck and sold in Hong Kong at very competitive prices. Third, high-end retail outlets selling premium chicken meat products did not experience any significant decline in retail sales of American chicken products. Fourth, in ordinary retail outlets where the origin of frozen products is not well labeled, the overall sales of chicken products declined.

Hong Kong's consumption of chicken products in 2006 is expected to show modest rise, reaching 273 MT, provided that Hong Kong does not have any AI cases. Hong Kong being a mature market should not experience any drastic demand change for meats. (Chicken consumption in 2004 was about 5 percent lower than 2005. This was the result of Hong Kong's ban on live chicken and chicken products from China and the U.S. in early 2004 because of AI cases, resulting in consumption at that time being severely affected.)

However, the consumption, particularly live chicken, will depend very much on the development of AI outbreaks in China. If the neighboring province, Guangdong, has AI outbreaks, both supplies and confidence will be adversely affected. Guangdong is the major supplying area for live chickens and chilled whole chickens. Any AI outbreak there, according to the existing policy, will lead to Hong Kong government's ban on chicken product exports to the territory.

Trade

Hong Kong had a chicken product market of over \$385 million (303,035 MT) in 2005, plus \$137 million (188,415 MT) worth of chicken feet.

Change in Market Share

A significant point worth mentioning is Brazil's overtaking the U.S. as the largest supplier for the second year since 2004. The U.S. exported \$52 million of chicken products to Hong Kong in 2005, being the 3rd largest supplier taking up 13 percent of the market share. It used to take up 33 percent (\$121 million) in 2003 and was the leading chicken meat supplier for the Hong Kong market. The Hong Kong government banned U.S. chicken products between February 11 and April 30, 2004 because of AI cases in the U.S. Since then, the Brazilian products greatly expanded the market. Hong Kong importers have established new business relationships with Brazilian exporters. Since the products are receptive by their customers, many importers do not have a big incentive to stick to U.S. products even after the lifting of the ban. Instead, importers will compare the prices between U.S. and Brazilian products and offer both choices to their customers. Because of the price discrepancy, importers and end users very often will end up buying the price competitive Brazilian products.

Brazil is particularly strong in mid-joint wings. Several years ago, they largely supplied 3-joint wings which were primarily re-exported to China. Traders like the soldier layer packing method and size guarantee for Brazilian products. For example, Brazilian exporters are able to guarantee 2-joint wings in a reasonable region of 35 gms. For the first 11 months of 2005, Hong Kong's imports of Brazilian chicken wings rose by 18 percent reaching \$105 million. In contrast, U.S. exports of chicken wings to Hong Kong dropped by 21 percent at a value of \$28 million.

Table 6 indicated that the average price of Brazilian products in 2005 rose by 45 percent compared to 2003. The increased average price reflected the fact that Hong Kong traders bought more expensive parts from Brazil than in the past and these more expensive parts very often are retained for domestic consumption.

The Impact of the New Certification Requirement for Chicken Feet

Effective April 30, 2005, U.S. chicken feet exports to Hong Kong are required to meet the same health certification as poultry meat. To meet the new requirements, processing plants need to modify their plant facilities in order to process chicken feet which are derived from birds which have been given ante-mortem and post-mortem inspection. Since the Hong Kong government has taken the "production date" as the cut-off date, products exported to Hong Kong in May with production date prior to April 30 were still eligible to be imported to Hong Kong without complying with the new requirement.

The import figures between Jan – May and June – Nov are compared in order to gauge the impact of the requirement change. The import figures of U.S. chicken feet declined from 59,000 MT in January – May 2005 to 21,000 MT in June – November 2005, representing a decline of 64 percent. For other U.S. chicken products, the decline was recorded less at 37 percent (Jan- May 30,000 MT; June – November 19,000 MT). There could be only two reasons that explained the bigger decline in chicken feet. One is the change of certificate requirements. Another reason could be the fact that China's demand for chicken feet products slackened in the second half of the year. Since 51 percent of Hong Kong's chicken feet products are re-exported while 26 percent of other chicken products are re-exported, the change in demand in China would have a bigger impact on Hong Kong's import of U.S. chicken feet than of other U.S. chicken products.

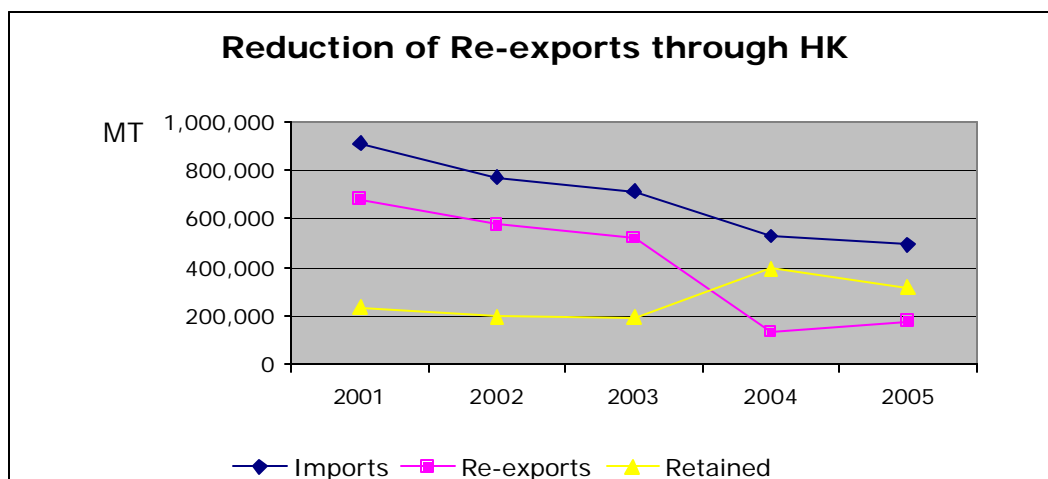
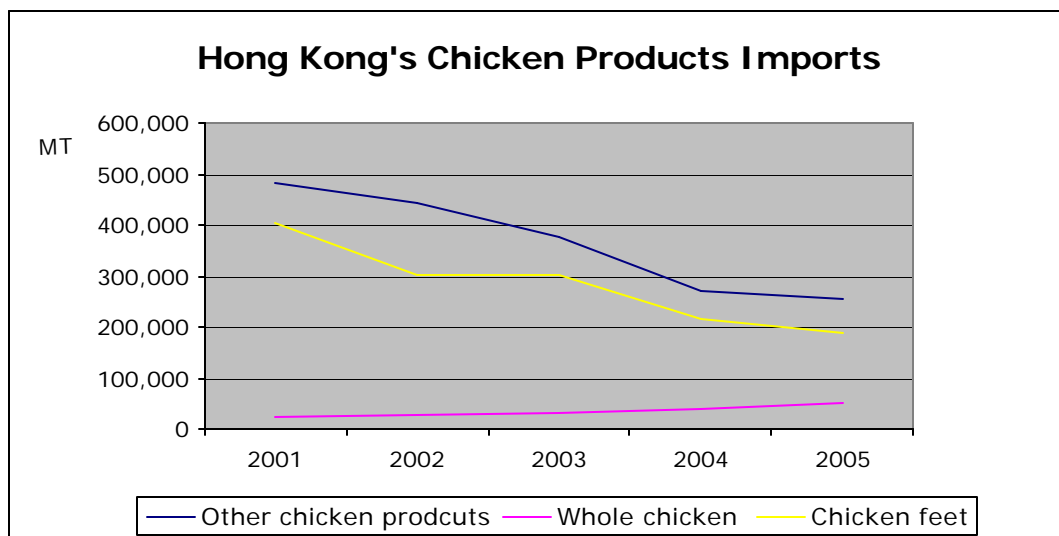
	January – May 2005	June – May 2005	% change
U.S. chicken feet exports to HK	59,000 MT	21,000 MT	64%
Other U.S. chicken exports to HK	30,000 MT	19,000 MT	37 %

Increasing Direct Shipments to China

In the past few years, Hong Kong's imports of chicken products have been decreasing. The major reason was the decreased re-export trade to China. (See figures below). In recent years, China's import duty for chicken products has been lowered. On the other hand, Hong Kong has expensive terminal handling charges in addition to the pre-inspection process now required by the China Inspection Co. in Hong Kong. As long as there are no conspicuous savings through Hong Kong, traders tend to ship products directly to China.

The importation of whole chicken is the only category exception that it has increased over the years. Less than 1 percent of whole chicken imports are re-exported. Almost all imports are retained for domestic consumption. As such, the changed climate in re-export trade has not had any impact on the importation of whole chickens. In fact, it has been increasing steadily because the government has restricted the importation of live chickens and chilled/frozen whole chicken imports have been the substitutes for live chickens. China accounted for 91 percent of the market share in this product category. The chilled/frozen whole chickens imported from China have heads and feet on, which are different from other supplying countries.

The second figure below indicted that retained imports in 2004 surged suddenly. In fact, this was due to the decline of re-exports to China caused by China's ban on chicken products. Many products were retained in Hong Kong as a result. In order to prevent total loss when products fail to access China, traders tend to dump the products in Hong Kong. While Hong Kong's consumption of chilled/frozen chickens are increasing steadily, it should not experience such conspicuous jump in one year.



Note: Figures include chicken feet

Forecast for 2006

As the Hong Kong market is still stocked with chicken products, imports in early 2006 will go slowly with a modest annual growth of about 1 percent in 2006, amounting to 226,000 MT. The U.S. will continue to face strong competition from Brazilian products. However, Hong Kong consumers have strong confidence in U.S. food products in terms of quality and food safety. U.S. chicken products will be advantaged in this regard under the increasing threat of AI problems in the region. As such, U.S. product import is forecast to rise by 6 percent reaching 35,000 MT in 2006.

Given the trend in the past few years, Hong Kong's overall imports of chicken products, including chicken feet and re-exports, are expected to continue to decline. For products and certain destinations in China that are still favorable for being re-exported through transport companies, they will still come to Hong Kong first. However, these products going to China

may take various routings. For example, Vietnam and Taiwan were favorable routing centers in 2004 and 2005 respectively. (Table 8)

Policy

Hong Kong has imposed restrictions on imports of live poultry and poultry meat from countries where AI cases have been reported. As of January 16, 2006 Hong Kong has restricted live poultry and poultry meat from the following countries.

Country/Places	Date of Ban	Import Volume (Poultry)
Cambodia	January 23, 2004	Nil
Canada British Columbia	November 21, 2005	Negligible
Croatia	October 22, 2005	Nil
Democratic People's Republic of Korea	March 29, 2005	Nil
Indonesia	January 27, 2004	Nil
Japan Ibaraki Prefecture Saitama Prefecture	January 29, 2005 September 1, 2005	Nil Nil
Kazakhstan	August 17, 2005	Nil
Laos	January 27, 2004	Nil
People's Republic of China Anhui Province Guizhou Province Hubei Province Hunan Province Inner Mongolia Autonomous Region Jiangxi Province Liaoning Province Ningxia Autonomous Region Shanxi Province Sichuan Province Tibet Autonomous Region Yunnan Province Xinjiang Autonomous Region	July 6, 2004 Jan 10, 2006 Nov 12, 2005 Oct 25, 2005 Nov 21, 2005 Dec 15, 2005 Nov 4, 2005 Nov 22, 2005 Nov 19, 2005 Jan 4, 2006 Aug 11, 2005 Nov 22, 2005 Jun 8, 2005	All these provinces exported none or negligible amount of poultry meat to Hong Kong except Liaoning Province. Between January 1 to October 25, 2005, Hong Kong imported 13,000 MT of poultry meat from Liaoning Province or about 14% of China's import to Hong Kong. The estimated value was about \$18 million. None of these provinces exported live poultry to Hong Kong.
Romania	Oct 18, 2005	Nil
Russian Federation	July 30, 2005	Nil
Thailand	January 23, 2004	\$30 million (2003)
Turkey	Oct 15, 2005	\$12 million (2004)
Vietnam	Jan 13, 2004	Nil

Source: Hong Kong Census & Statistics Department
Hong Kong Food & Environmental Hygiene Department

Though Liaoning Province is one of the significant provinces exporting chicken meat products to Hong Kong, Hong Kong traders have shifted their sourcing to other provinces such as Shandong Province and supplies have been sufficient. Nonetheless, imports from China have declined but the reason was due to slackened demand in Hong Kong rather than reduced supply in China.

Hong Kong's Imports of Chicken products from the World and China

Country	-	KG	Aug 2005	KG	Sep 2005	KG	Oct 2005	KG	Nov 2005	% change
--The World--	-		26,063,049		25,986,092		30,519,857		24,459,816	-20%
China	-		7,605,410		8,217,887		8,081,418		6,231,369	-23%

Sources: Hong Kong Census & Statistics Department

Hong Kong allows the importation of cooked-processed poultry products from AI infected countries. However, import consignments have to be accompanied by health certificates stating that the products do not come from AI infected zones.

Reorganization Plan for the Food Safety Regulatory Framework

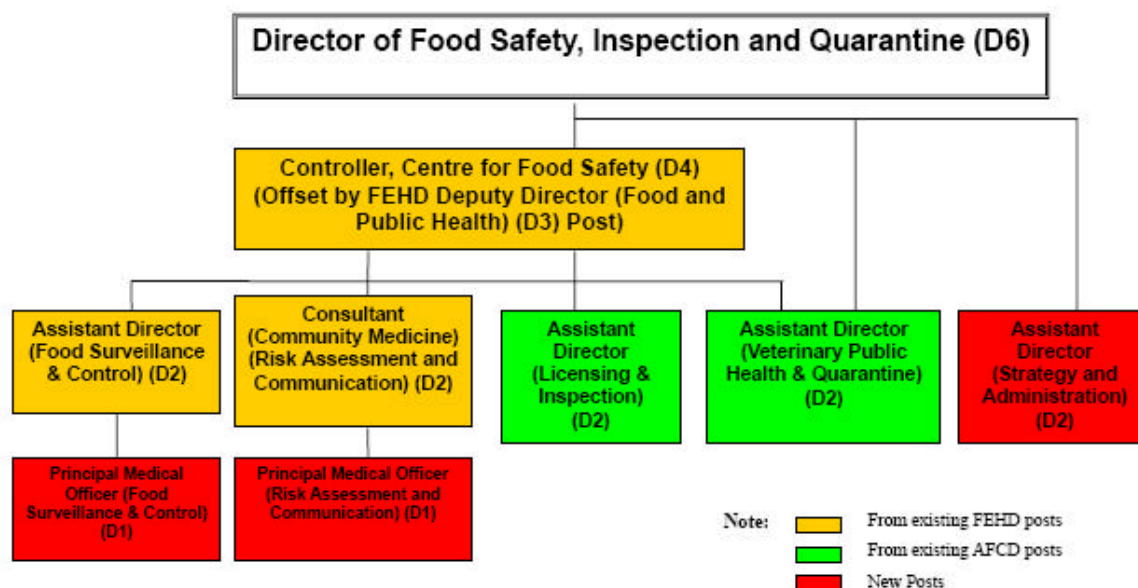
The Hong Kong government has decided to reorganize the food regulatory framework in Hong Kong by setting up two new departments called Department of Food Safety, Inspection and Quarantine (DFSIQ) and Department of Agriculture and Environmental Hygiene (DAEH). These two departments will be under the policy bureau --- Health Welfare and Food Bureau. (See proposed organization charts in Annex 1, 2 & 3.)

FEHD's (Food and Environmental Hygiene Department) existing regulatory functions over food, live food animal meats and slaughterhouse management and AFCD's (Agriculture, Fisheries and Conservation Department) existing functions over the inspection and quarantine of imported non-food live animals, birds and plants, licensing of livestock and mariculture farms, and regulation of pesticides to be transferred to the new DFSIQ. The new DAEH will take up the operational responsibilities to promote and facilitate the development of agriculture and fisheries activities in Hong Kong and maintain environmental hygiene. Also, the government is planning to set up a Food Standard Committee consisting of experts and academics to enhance the formulation and review of food safety standards. The purpose of the re-organization is to set up a new department to regulate all matters related to food safety.

The government aims to have the new DFSIQ set up by April 2006. Sources revealed that the reorganization has encountered some resistance from staff and the project may not be completed before the target date. As an interim measure, the Hong Kong government intends to set up a Center for Food Safety under the existing FEHD. The Controller of the Center will be responsible for formulating and implementing all food safety measures, leading high level negotiations, and liaison with mainland China and overseas food authorities on food safety matters.

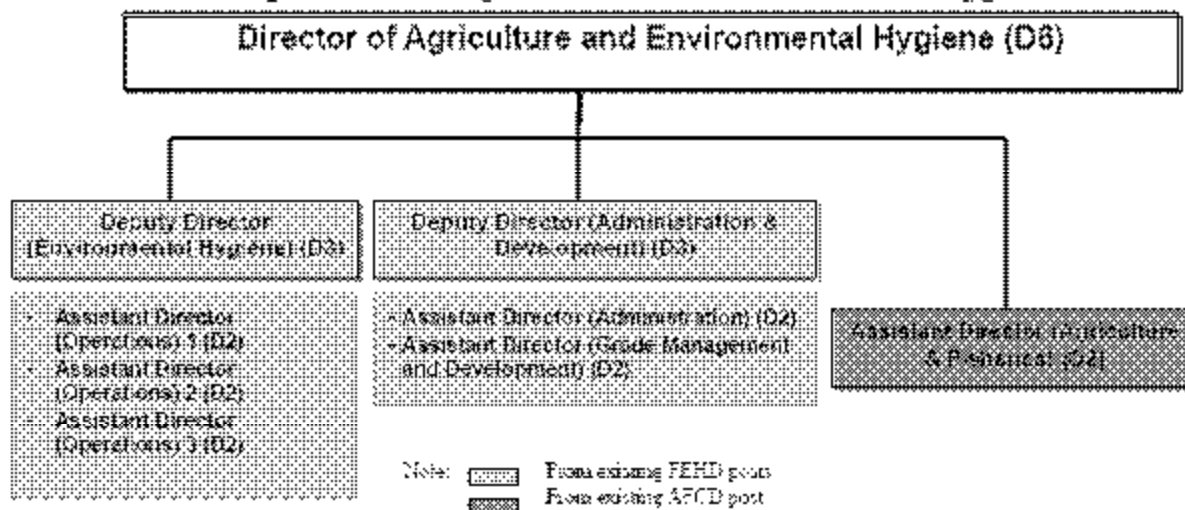
Annex 1: Proposed Organization Structure of the Department of Food Safety, Inspection and Quarantine

Organization Structure of the Department of Food Safety, Inspection and Quarantine



Annex 2: Proposed Organization Structure of the Department of Agriculture and Environmental Hygiene

Organization Structure of the Department of Agriculture and Environmental Hygiene



Annex 3: Proposed Organization of Health, Welfare and Food Bureau after Reorganization

